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Report Highlights: Government offers carbon credits as incentive for projects aimed at reducing greenhouse gas emissions. Biotechnology: Anti-GM sentiment and the detection of GM corn have not persuaded the Government to extend the GM moratorium. Dairy: Change at helm of Fonterra marks beginning of a new era. Horticulture: Zespri posts record year but voices concern over NZ's GM status.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Wellington [NZ1], NZ

GENERAL

Government Subsidizes Greenhouse Gas Reduction Projects

As part of its climate change policy announced in October 2002, the New Zealand Government offers incentives to New Zealand businesses to initiate projects that will reduce greenhouse gas emissions during the first commitment period (2008-2012) of the Kyoto Protocol. Businesses can apply to receive a share of the government-allocated emission units ('carbon credits'), which they could swap on a potential international carbon trading market. Without the economic incentive, such initiatives would probably not be undertaken, the Government comments. However, each project's economic viability will depend on the future value of carbon credits and the development of an international carbon trading regime, which hinges on Russia's ratification of the Kyoto Protocol. Favored projects are those that use renewable energy sources, reduce emissions from the waste sector, or utilize alternative fuel sources. In the first round (September and October) of 'carbon credit' allocations, businesses can bid for a total of four million carbon credit units.

BIOTECHNOLOGY

High Court Challenge to Stop GM Cattle Trial Unsuccessful

The New Zealand High Court has rejected a request by Mothers against Genetic Engineering (MaDGE) for a judicial review of the approval of a GM cattle trial in 2002. MaDGE had sought a review of actions taken by the Minister for the Environment and the decision by the Environmental Risk Management Authority¹ (ERMA) to grant approval for the trial to the government research organization AgResearch. MaDGE had asked the High Court to overturn the approval, claiming that the minister erred in not rejecting the application. Legislation provides discretionary powers to 'call in' GM applications if the minister has concerns over ERMA's decision-making capacity or if an application may have significant societal or economic implications. The High Court found, however, that MaDGE's case was primarily concerned with the validity of the procedures followed by the minister and ERMA and not with the merits of ERMA's decision to approve the trial. Consequently, ERMA's original decision was upheld by the High Court.

ERMA's decision-making capacity, particularly for new organisms, recently underwent an independent review under the Hazardous Substances and New Organisms Act 1996. According to the Minister for the Environment, the review endorsed ERMA's core competencies to carry out its role, although it recommended 49 areas for improvements. These are aimed at enhancing ERMA's performance with respect to internal policies for development of staff and management and its relationships with other agencies, stakeholders, Maori and the public.

Government Stays on Course to Let GM Moratorium Expire Despite GM Sweetcorn Find

¹ERMA is the independent decision-making body that controls the introduction into New Zealand of new plants and animals, including genetically modified organisms.

The confirmation that traces (< 0.1 percent) of Bt11 corn and another unknown GM variety (<0.05 percent) were detected in sweetcorn samples taken from several fields in the Gisborne area (North Island) in July has not persuaded the New Zealand Government to extend the moratorium on the commercial release of GM organisms beyond October 2003. Bt11 or any other GM corn variety cannot be legally grown in New Zealand (although, Bt11 corn is approved for human consumption in New Zealand). The Ministry of Agriculture and Forestry (MAF) investigated the incidents but was unable to determine with certainty the source of the Bt11 corn. Cross-pollination from neighboring crops or mixing during harvest or processing of the crop were ruled out. MAF is now concerned that the original seed lines imported from the United States may have contained GM seeds even though they were cleared as GM-free before import into New Zealand. A re-test of the original seed line showed no traces of Bt11, but given that current testing methods cannot provide 100 percent confidence in the results, MAF has not ruled out that the imported seed lines may be the original source of the Bt11 corn. These events have prompted MAF to review current testing procedures used for imported sweet corn and maize seeds with the consequence that more stringent testing requirements will be implemented. However, most seed imports for next season's planting have already been received, so new testing protocols will not be effective until 2004.

GM Onion Field Trial Application Focuses on Environmental Sustainability

Government research organization Crop & Food Research has applied to ERMA to approve a contained field test with genetically modified onions. The application is for the insertion of a gene that makes onion plants tolerant to the herbicide glyphosate (Roundup). The same gene has been used to develop glyphosate-resistant soybean, corn and canola. Herbicide-resistant onion plants would allow growers to reduce sprays from 10 to 15 toxic and environmentally persistent herbicide applications to less than half that with the much safer glyphosate. According to Crop & Food Research, the field test is categorized as very low risk. An application for the commercial release of GM onions into the environment is not expected before 2011, according to Crop & Food Research.

DAIRY & PRODUCTS

New Canadian CEO Marks New Era for Fonterra

Andrew Ferrier, a Canadian with a background in the sugar industry, has been appointed the new CEO of Fonterra Co-operative Group, replacing Craig Norgate who held the position since the formation of Fonterra two years ago. According to Fonterra, the new CEO brings a more relevant skill set to the industry. During his involvement with Redpath, a subsidiary of British Tate & Lyle, he successfully exploited profitable niches in low margin markets, conditions that closely resemble those in Fonterra's markets.

Fonterra also announced its financial results for the 2002-2003 season (www.fonterra.com). The

final payout to Fonterra's dairy farmers is now confirmed at NZ \$3.63² per kg. of milksolids (MS), down one third from the 2001-2002 season's payout (Westland and Tatua's final payouts for the 2002/2003 season were NZ \$3.97 and NZ \$5.60 per kg. MS, respectively). The primary causes for Fonterra's lower payout were lower commodity prices (down 24 percent) and an appreciation of the New Zealand dollar versus the U.S. dollar (up 21 percent, although two thirds of the appreciation was offset by Fonterra's currency hedging) compared with a year earlier. The significant drop in payout to Fonterra's farmers is not only a reflection of deteriorated market conditions, though. Fonterra kept payouts for the 2001/2002 season artificially high at NZ \$5.30 per kg. MS by using its reserves, which led to a NZ \$50 million loss in its first year of operation. The financial results for the 2002/2003 season show an improvement in Fonterra's position. Due mainly to asset sales from its South American milk powder business to Nestlé, Fonterra was able to post a NZ \$284 million profit.

For the 2003-2004 season Fonterra maintains a final payout forecast of NZ \$3.80 per kg. MS given expectations that world prices will remain flat and that the currency is hedged at an average U.S. \$0.52 per NZ \$ for the entire 2003-2004 season. The 2004-2005 season may see further deterioration of Fonterra's currency position to U.S. \$0.58-0.60 per NZ \$.

LIVESTOCK & PRODUCTS

United States, New Zealand and Australia Plan "Three Nations Lamb Group"

New Zealand, Australia and the United States are planning to establish the "Three Nations Lamb Group" with the aim to increase U.S. lamb consumption. At a recent summit in Texas, government officials and meat industry representatives from all three countries expressed the desire to increase the lamb market share of U.S. meat sales by increasing annual per capita consumption, which currently amounts to a mere 500 grams. The farmer representative bodies Federated Farmers (New Zealand) and the Sheepmeat Council of Australia have proposed a formal forum with the American Sheep Industry Association in September this year to increase cooperation and dialogue between lamb producers in the United States, New Zealand and Australia. Meat New Zealand commented that increased cooperation was likely to result in increased demand for lamb in the United States and that any growth in per capita consumption should also benefit U.S. lamb producers.

The United States is New Zealand's fourth largest market for lamb valued at U.S. \$120 million in 2002. During the first quarter of 2003, New Zealand increased export sales 25 percent due to strong market demand in the United States, low tariffs and no quota restrictions to enter the U.S. market.

² U.S. \$0.58 = NZ \$1

HORTICULTURE & PRODUCTS

Record 2002-2003 Season for Zespri but Concerns over GM

Statutory kiwifruit monopoly exporter Zespri has doubled its net profit to more than NZ \$14 million and increased sales revenues 8 percent to NZ \$860 million in the year to March 2003, leading to the fifth consecutive record annual payout to its supplier shareholders. Much of this increase can be attributed to Zespri's exclusive Gold kiwifruit variety, which contributed 20 percent to total sales revenue at only 13 percent of the total kiwifruit volume sold. Sales of the Gold variety increased almost 70 percent, and this helped to compensate sales declines of Zespri's traditional Green kiwifruit variety. Zespri has exclusive control over the Gold variety, which helped it avoid oversupply and pricing problems. Instead, Zespri was able to raise prices in most markets. Zespri is confident that increasing New Zealand-grown Gold kiwifruit production from 8 million to 12 million trays over the next two years will be absorbed by markets. Zespri's success in international markets is built in part on New Zealand's clean, green and healthy image. According to Zespri, the imminent expiration of the moratorium on the commercial release of GMOs is cause for concern, because of the uncertainty over the impact this may have on the perception of New Zealand kiwifruit in export markets.